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PART I
THE RELATION OF BUSINESS CYCLES
TO UNEMPLOYMENT



BUSINESS CYCLES AND UNEMPLOYMENT

INTRODUCTION

BY WESLEY C. MITCHELL

NATIONAL BUREAU OF ECONOMIC RESEARCH

I. HOW THIS REPORT CAME TO BE PREPARED

In his foreword to the report of the Committee on Unemployment and Business Cycles, Secretary Herbert Hoover has explained the circumstances under which he asked the National Bureau of Economic Research to investigate the feasibility of various plans which had been suggested for mitigating or preventing the widespread unemployment which accompanies business depression.

The National Bureau of Economic Research was chartered in 1920 to conduct quantitative investigations into subjects that affect public welfare. Its aim is to ascertain fundamental facts within its field as accurately as may be and to make these facts widely known. The form of organization is designed to ensure not only scientific and impartial work on the part of its staff, but also a review of their results by men who represent all the important angles from which economic problems are viewed. Control is vested in a board of twenty-one directors of widely divergent training, experience, and opinions. All reports made by the staff are submitted to this board before publication, and any director who dissents from a finding approved by the majority may have his dissenting opinion published if he so desires. It is believed that this critical scrutiny of results by such a board safeguards the Bureau's reports against bias.

In preparing the present report upon Business Cycles and Unemployment, the Bureau sought the help of various experts not connected with its staff. The field to be covered was wide, and the time allowed for completing the report was strictly limited to six months from February 20, 1922, when funds became available for starting the work. Only by securing the cooperation of those most familiar with the various detailed problems was it possible to accomplish the task within the time. A glance at the table of contents where the names of these associated workers are given will show how large a share they and the organizations with which several of them are connected have taken in the investigation.

II. THE SCOPE OF THE REPORT

Three other limits were imposed upon the report. It was not to exceed 400 pages in length. It was to distinguish between the problems of "cyclical" and of "seasonal" unemployment and so far as feasible to treat only the former. It was to present, not recommendations concerning what ought to be done, but facts which ought to be considered by those who have the responsibility of formulating policies—specifically the Committee on Unemployment and Business Cycles appointed by Secretary Hoover, and more at large all citizens who participate in the discussion, enactment, or administration of practical measures for reducing unemployment.

Because of these limitations of time, size, and scope, this report is very far from being an exhaustive treatise. It is rather a reconnaissance survey, run quickly through a wide territory, in the hope of enabling the social engineers to locate the most promising routes for the construction of new highways. Books thicker than the present volume have been written upon at least half the topics here treated in a single chapter or a single section and with good reason. Indeed, it is hoped that several of the contributors to this report will soon publish the results of their investigations in fuller form than is here possible. Similar investigation and discussion on the part of many other public-spirited citizens is eminently desirable; for it is only by the cumulation of contributions from many minds that a social problem so difficult as the prevention of cyclical unemployment can be solved.

It is also hoped that the closely related problem of seasonal unemployment, which is here set aside, will be taken up by a distinct set of agencies technically qualified to deal with its endless intricacies. The attempt to segregate cyclical and seasonal unemployment has serious disadvantages, which will be clear to the reader of the following chapters. But the attempt to treat both problems with the means at hand would have been futile. Anyone who works even a little way into the problem of seasonal unemployment realizes that it breaks down under analysis into as many separate problems as there are seasonal trades, and that to treat any of these problems intelligently it is necessary to master a host of details concerning the materials and products, the technical processes and personnel, the commercial organization and the markets of the trade in question. Obviously the agencies that are to deal with these problems must have qualifications of a special sort. We have had to choose between two evils in deciding whether to treat both cyclical and seasonal unemployment or to treat one problem in artificial separation from the other. The evil of separation is decidedly less than the other evil would have been.

III. PLAN OF THE REPORT

The table of contents shows the general plan of this report. Interest centers in the third and largest part which deals with the leading proposals for preventing or at least reducing cyclical unemployment. But the way in which these proposals operate and their prospects of success cannot be made clear without some analysis of business cycles, since periods of widespread unemployment are only one among many manifestations of the periodically recurring seasons of business depression. Hence the necessity for Part I, "The Relation of Unemployment to Business Cycles." And clearly the discussion of remedies should be prefaced, as it is, by a brief diagnosis of the disorder—the fluctuations of unemployment as shown by present statistics, the reliability of these data, and the way in which unemployment affects the worker's body and mind, his home life, and the development of his children. Any reader familiar with the phenomena of business cycles and the facts of unemployment can skip Parts I and II without much loss, and plunge at once into the practical details of Part III.

IV. ACKNOWLEDGMENTS

The Committee on Unemployment and Business Cycles unites with the National Bureau of Economic Research in returning hearty thanks to the many organizations, business establishments, and individuals who have aided in the preparation of this report. The correspondents who have answered requests for information—often very troublesome requests—number several thousands, so that it is not feasible to publish their names. But certain organizations have made contributions on a scale so generous as to require special mention.

This list may begin with the Carnegie Corporation which provided funds enabling the National Bureau of Economic Research to secure the cooperation of workers not connected with its regular staff. The Russell Sage Foundation bore the expenses of the field work done by Miss Van Kleeck and permitted us to profit by Shelby M. Harrison's long study of employment offices. The Bureau of Railway Economics and the American Association for Labor Legislation have been similarly generous with respect to the chapters written by Julius H. Parmelee and John B. Andrews. T. S. Adams, Otto T. Mallery, and Gilbert H. Montague generously contributed the services of themselves and their assistants. We are also indebted to the Hickey-Freeman Company for letting us obtain the cooperation of N. I. Stone.

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H. S. Person, by the Bureau of Crop Estimates through Nat C. Murray and Virgil A. Sanders, by the Bureau of Business Research of Northwestern University through Horace Secrist, by the National Association of Credit Men through John Whyte, by the Chamber of Commerce of the United States through numerous local secretaries, and by many professors of economics and statistics in the universities. Alexander Wall of the Robert Morris Associates has put at our disposal a valuable collection of credit analyses. The statistical data from several thousand questionnaires were compiled by the Bureau of the Census under the direction of W. M. Steuart. Many other obligations are mentioned in the several chapters of the report.

The National Bureau of Economic Research takes this opportunity to thank Edward Eyre Hunt, Secretary of the President's Conference on Unemployment and of the Committee on Unemployment and Business Cycles, for his cordial cooperation in conducting the investigation and in editing the report.